

Message Text

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ACTION SS-30

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FM AMEMBASSY JIDDA

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INFO AMEMBASSY ABU DHABI

AMEMBASSY BEIRUT

AMEMBASSY BRUSSELS

AMEMBASSY CARACAS

AMEMBASSY KUWAIT

AMEMBASSY LONDON

AMEMBASSY MANAMA

USMISSION OECD PARIS

AMEMBASSY TEHRAN

AMEMBASSY TOKYO

AMEMBASSY TRIPOLI

AMEMBASSY VIENNA

S E C R E T JIDDA 2926

EXDIS

BEIRUT PASS BAGHDAD

E.O. 11652: GDS

TAGS: ENRG, SA

SUBJECT: NEW SAUDI-OIL COMPANY RELATIONSHIP;
YAMANI'S VIEWS AND PLANS

REF JIDDA 2695

SUMMARY: YAMANI EXPECTS THE NEW RELATIONSHIP WITH
THE ARAMCO PARENTS TO BE WORKED OUT THIS JULY. HE
HAS INVITED THEM TO SAUDI ARABIA, WILL ASK THAT
THE NEGOTIATORS BE EMPOWERED TO CONCLUDE AN AGREE-
MENT, AND SUGGEST THAT THEY STAY HERE UNTIL AN AGREE-
MENT IS REACHED. HE SAYS HE WANTS AN AGREEMENT THAT
SAUDI ARABIA AND THE COMPANIES WILL BE ABLE TO LIVE

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WITH FOR THE NEXT TEN OR TWENTY YEARS. ALTHOUGH THE

COMPANIES SAY THEY ARE ANXIOUS TO START TALKS THEY HAVE NOT YET GIVEN HIM MUCH INDICATION OF THEIR THINKING. END SUMMARY.

1. AHMAD ZAKI YAMANI, SAUDI MINISTER OF PETROLEUM, TOLD THE AMBASSADOR YESTERDAY (MAY 26) THAT HE HAD JUST INVITED THE ARAMCO PARENTS TO SEND TOP OFFICIALS, EMPOWERED TO CONCLUDE AGREEMENTS, TO HADA (HIS HOME IN THE MOUNTAINS ABOVE JIDDA) THIS JULY, AND THAT THEY SHOULD STAY THERE UNTIL AN AGREEMENT IS REACHED. HE SAID THE COMPANIES HAD ALREADY ACCEPTED THE PRINCIPLE OF A NEW RELATIONSHIP BUT HAD NOT YET GIVEN HIM MUCH CONCRETE INDICATION OF THEIR THINKING.

2. HE THOUGHT THEIR MAIN PROBLEM WAS IN WORKING OUT A NEW ARRANGEMENT WHICH WOULD PRESERVE THEIR U.S. DOMESTIC TAX CREDITS, AND HE SAID HE WISHED THEM LUCK, BUT HIS READING OF THE CURRENT POLITICAL SCENE IN AMERICA HAD LET HIM TO CONCLUDE THAT THIS WOULD NOT BE EASY.

3. HE SAID, AS HE HAD BEFORE, THAT HE WAS THINKING OF CONVERTING ARAMCO INTO A PURELY SAUDI COMPANY. THE AMERICAN OFFICIALS WOULD STAY ON THE JOB; THE ORGANIZATION OF ARAMCO WOULD NOT CHANGE AND THE PARENT COMPANIES (IN THE SAME 30-30-30-10 RATIO AS AT PRESENT) WOULD TAKE CRUDE ON LONG-TERM CONTRACTS AND, IF THEY WISH WOULD ALSO PARTICIPATE IN THE DEVELOPMENT OF EXISTING FIELDS AND THE EXPLORATION AND DEVELOPMENT OF NEW FIELDS. IN THIS CASE ALL OF THE CONCESSIONARY AREAS RELINQUISHED BY ARAMCO WOULD BE RETURNED TO THE COMPANY. (COMMENT: IF DONE, THIS WILL BE A RUDE SURPRISE TO MOBIL, OCCIDENTAL, THE JAPANESE, GERMANS, BRITISH AND ALL OTHERS WHO BELIEVE THEY WILL SOON BE GIVEN LARGE AREAS OF THE KINGDOM FOR OIL PROSPECTING.)

4. YAMANI SAID, AS HE ALSO HAD REPEATEDLY IN THE PAST, THAT HE IS THE WORLD'S FOREMOST ADVOCATE OF CAPITALISM. HE BELIEVES IN THE PROFIT MOTIVE AND KNOWS THAT IF THE AMERICAN COMPANIES ARE TO STAY ON THE JOB, IF
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THEY ARE TO DO GOOD WORK, THEY WILL HAVE TO BE ALLOWED REASONABLE PROFITS. HE SAID HE HAS NO INTENTION WHATSOEVER OF FOLLOWING THE LEAD OF IRAQ OR IRAN IN TRYING TO ELIMINATE OR EVEN REDUCE RAPIDLY THE FOREIGN ROLE IN OIL PRODUCTION. HE SAID THE AMERICANS MUST HAVE A MAJOR ROLE FOR THE FORESEEABLE FUTURE IN SAUDI OIL PRODUCTION AND IN JOINT VENTURES WITH SAUDI ARABIA AT HOME AND ABROAD.

5. THE MINISTER REPEATED HIS STATEMENTS THAT SAUDI OIL PRODUCTION FROM FIELDS ALREADY DISCOVERED WOULD BE LIMITED TO CURRENT PRODUCTION PLANS, I.E. ABOUT 11 MILLION BBLs/DAY AND THAT ANY FUTURE EXPANSION WOULD HAVE TO COME FROM NEW DISCOVERIES (REFTEL) - WHICH HE BELIEVES WILL BE MADE EASILY. (COMMENT: WHEN THIS POINT WAS RAISED RECENTLY WITH FRANK JUNGERS, CHAIRMAN OF ARAMCO, HE CONFIRMED THAT YAMANI HAD TALKED TO THE COMPANY ABOUT THIS BUT ARAMCO ASSUMED HE MEANT NEW PRODUCTION FROM EXISTING PRODUCING FIELDS OR, AT THE WORST, FROM FIELDS ALREADY DISCOVERED BUT NOT YET ON STREAM. THERE SEEMS TO BE A VERY SERIOUS LACK OF COMMUNICATION BETWEEN JUNGERS AND YAMANI.)

6. YAMANI ALSO SAID THAT THE NEW AGREEMENT WOULD PROBABLY ABOLISH THE POSTED PRICE AS IT HAD SERVED FOR YEARS ONLY AS A TAX GIMMICK FOR THE OIL COMPANIES; THERE NOW SEEMS NO REAL REASON FOR ITS RETENTION. IT WOULD BE BETTER, HE THOUGHT, TO HAVE A FEW FIXED POINTS FOR OIL PRICES: A) COST OF PRODUCTION, WHICH VARIES ONLY SLIGHTLY THROUGHOUT THE GULF AND WILL NOT CHANGE SIGNIFICANTLY UNTIL SECONDARY AND TERTIARY RECOVERY BEGINS; B) THE GOVERNMENT TAX WHICH ALSO IS ABOUT THE SAME THROUGHOUT THE GULF; AND C) MODEST COMPANY PROFITS FOR THEIR ROLE IN PRODUCTION. THIS WOULD YIELD A MARKET PRICE WHICH ALL BUYERS WOULD PAY - EITHER TO THE ARAMCO PARENTS OR TO PETROMIN. THE SMALLER OIL COMPANIES COULD THEN COMPETE MORE EASILY WITH THE MAJORS.

7. UNDER THIS NEW SYSTEM THE MAJOR PART OF THE OIL COMPANY PROFITS WOULD HAVE TO BE SHIFTED DOWN-STREAM; I.E. THEY WOULD HAVE THEN TO SHOW PROFITS ON THEIR
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SHIPPING, ON REFINING AND MARKETING, SOMETHING WHICH THEY DO ONLY TO A VERY SMALL EXTENT TODAY. HE THOUGHT THIS WOULD BRING JOY TO THE HEARTS OF THE AMERICAN ANTI-TRUST FORCES, AS IT WOULD REINTRODUCE AN IMPORTANT ELEMENT OF COMPETITION INTO WORLD OIL.

8. YAMANI ASKED IF THERE WERE NOT SOME WAY THE COMPANIES COULD BE PERSUADED TO PRESENT A STRONG IMAGINATIVE PROPOSAL. HE SAID THEY ALREADY HAD A GENERAL IDEA OF HIS THINKING AND HE THOUGHT HE KNEW WHAT THEY HAD IN MIND. THAT HE DOESN'T WANT, HE SAID, IS TO GET BOGGED DOWN IN LEGAL DETAILS AND HE HOPED THE COMPANIES COULD LEAVE THEIR LAWYERS AT HOME THIS SUMMER. THE LAWYERS COULD WORK OUT DETAILS AFTER THE GENERAL AGREEMENT IS REACHED.

9. COMMENT: WE STRONGLY URGE THAT THE COMPANIES NOT
RPT NOT BE GIVEN ANY OF THE DETAILS OF THIS MESSAGE.
THEY SHOULD GET THEM FROM YAMANI HIMSELF. IF THE
DEPARTMENT WISHES, HOWEVER, IT MIGHT INFORM THE
COMPANIES THAT YAMANI SEEMS PREPARED AND ANXIOUS
TO WORK OUT NEW ARRANGEMENTS WHICH WILL PROTECT THEIR
INTERESTS FOR A LONG TIME TO COME; AND THAT WE HOPE
THEY WILL PRESENT HIM WITH AN IMAGINATIVE NEW PROPOSAL.
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